



Peterson
Allred
Jackson

**WELLSVILLE-MENDON
CONSERVATION DISTRICT**

COMPILED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2006**

▪ Certified Public Accountants
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INTRODUCTORY SECTION

WELLSVILLE-MENDON CONSERVATION DISTRICT
Wellsville, Utah 84339

January 30, 2007

Utah State Auditor
211 State Capitol
Salt Lake City, UT 84114

Sir:

It is with great pleasure that the financial statements for the Wellsville-Mendon Conservation District (the District) for the year ended December 31, 2006, is presented.

State law requires that all local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and compiled in accordance with statements on standards for accounting and review services issued by the American Institute of Certified Public Accountants by a firm of licensed certified public accountants. These financial statements are hereby issued and submitted to you for the fiscal year ended December 31, 2006, in accordance with these requirements.

This report consists of management's representations concerning the finances of the District. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established an internal control framework that is designed to both protect the assets of the District from loss, theft, or misuse and to allow for the compiling of sufficient reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's internal control procedures have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of management's knowledge and belief, this financial report is complete and reliable in all material respects.

I wish to express my appreciation to all members of the District who assisted and contributed to the preparation of this report.

Respectfully submitted,

William R. Bankhead
Director

FINANCIAL SECTION



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▪ Certified Public Accountants
Business Consultants

INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Directors
Wellsville-Mendon Conservation District
Wellsville, Utah 84339

We have compiled the accompanying financial statements of the business-type activities of Wellsville-Mendon Conservation District (the District), as of and for the year ended December 31, 2006, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of officials of the District. We have not audited or reviewed the accompanying financial statements and accordingly, do not express an opinion or any other form of assurance on them.

The Management's Discussion and Analysis on pages 7-8, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have compiled the supplementary information from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Peterson Allred Jackson

January 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Wellsville-Mendon Conservation District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2006.

FINANCIAL HIGHLIGHTS

- The total net assets of \$210,591 is made up of \$107,551 in capital assets net of related debt and \$103,040 in other net assets.
- In the Enterprise Fund, revenues exceeded expenditures by \$3,736.
- Total long-term liabilities of the District were reduced by \$13,000.

REPORTING THE DISTRICT AS A WHOLE

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: 1) fund financial statements, and 2) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund of the District is a proprietary fund.

- Proprietary funds - District maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses enterprise funds to account for its Water Distribution.

As determined by generally accepted accounting principles, all enterprise funds meet the criteria of major fund classification.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceed liabilities by \$210,591.

By far the largest portion of the District's net assets (51%) reflects its investment in capital assets (e.g., system improvements, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Significant changes in business-type activities include a \$13,000 decrease in debt due to regular principal payments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets- The District's investment in capital assets for its business-type activities as of December 31, 2006, amounts to \$250,551 (net of accumulated depreciation). The total decrease in the District's investment in fixed assets for the current year was 2% (due to depreciation expense exceeding new purchases).

DISTRICT'S CAPITAL ASSETS

	Business-type Activities
System improvements	\$ 346,352
Machinery & equipment	3,193
Less: Accumulated depreciation	<u>(98,994)</u>
Total	<u>\$ 250,551</u>

Additional information on the District's capital assets can be found in the footnotes to this financial report.

Long-term debt - At December 31, 2006, the District had total bonded debt outstanding of \$143,000. Of this amount \$143,000 is debt which is secured solely by specific revenue sources (i.e., revenue bonds).

DISTRICT'S OUTSTANDING DEBT

	Business-type Activities
Revenue bonds	\$ <u>143,000</u>
Total outstanding debt	<u>\$ 143,000</u>

The District's total debt decreased by \$13,000 during the fiscal year.

Additional information on the outstanding debt obligations of the District can be found in the footnotes to this report.

WELLSVILLE-MENDON CONSERVATION DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006
With Comparative amounts for 2005

	Total 2006	Memorandum Total 2005
ASSETS		
Current assets:		
Cash	\$ 29,272	\$ 38,854
Water fees receivable	54,863	50,809
Total current assets	84,135	89,663
Capital assets		
Equipment	3,193	3,193
System improvements	346,352	333,781
Less Accumulated depreciation	(98,994)	(82,305)
Total capital assets	250,551	254,669
Non-current assets:		
Deferred charges	19,133	21,713
TOTAL ASSETS	353,819	366,045
LIABILITIES		
Current liabilities:		
Taxes payable	228	3,190
Total current liabilities	228	3,190
Long-term liabilities:		
Bonds payable - due within a year	13,000	13,000
Bonds payable - due in more than one year	130,000	143,000
Total long -term liabilities	143,000	156,000
Total liabilities	143,228	159,190
NET ASSETS		
Invested in capital assets, net of related debt	107,551	98,669
Unrestricted	103,040	108,186
Total net assets	\$ 210,591	\$ 206,855

See accompanying notes and accountant's report.

WELLSVILLE-MENDON CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006
With Comparative amounts for 2005

	Year Ended December 31, 2006	Memorandum Total Year Ended December 31, 2005
OPERATING REVENUES:		
Water sales	\$ 148,243	\$ 149,618
Total operating revenues	<u>148,243</u>	<u>149,618</u>
OPERATING EXPENSES:		
Water assessment	71,100	71,100
Water master/labor	9,756	8,302
Machine hire	8,273	1,332
Insurance	1,253	427
Director fees	3,600	3,500
Professional fees	9,357	17,202
Spraying/chemicals	10,812	7,427
Supplies	6,501	2,420
Amortization	2,580	2,580
Depreciation	16,689	16,620
Total operating expense	<u>139,921</u>	<u>130,910</u>
Operating income	8,322	18,708
NON-OPERATING INCOME/(EXPENSE)		
Interest income	366	327
Interest expense	(4,952)	(5,336)
Total non-operating revenue (expense)	<u>(4,586)</u>	<u>(5,009)</u>
CHANGE IN NET ASSETS	3,736	13,699
Total net assets-beginning	<u>206,855</u>	<u>193,156</u>
Total net assets-ending	<u>\$ 210,591</u>	<u>\$ 206,855</u>

See accompanying notes and accountant's report.

WELLSVILLE-MENDON CONSERVATION DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2006
With Comparative amounts for 2005

	<u>Total 2006</u>	<u>Memorandum Totals 2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 144,189	\$ 152,903
Payments to suppliers	(110,258)	(97,177)
Payments to contract labor	(13,356)	(11,802)
Net cash provided (used) by operating activities	<u>20,575</u>	<u>43,924</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on capital debt	(13,000)	(12,000)
Interest paid on capital debt	(4,952)	(5,336)
Net cash provided (used) by capital and related financing activities	<u>(17,952)</u>	<u>(17,336)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	366	327
System improvements	(12,571)	(6,468)
Net cash provided (used) by investing activities	<u>(12,205)</u>	<u>(6,141)</u>
Net increase (decrease) in cash and cash equivalents	(9,582)	20,447
Cash and equivalents at beginning of year	38,854	18,407
Cash and equivalents at end of year	<u>\$ 29,272</u>	<u>\$ 38,854</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 8,322	\$ 18,708
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation	16,689	16,620
Changes in assets & liabilities:		
Decrease (increase) in receivables	(4,054)	3,285
Decrease (increase) in deferred charges	2,580	2,580
Increase (decrease) in payables	(2,962)	2,731
Total adjustments	<u>12,253</u>	<u>25,216</u>
Net cash provided (used) by operating activities:	<u>\$ 20,575</u>	<u>\$ 43,924</u>

See accompanying notes and accountant's report.

WELLSVILLE-MENDON CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 1: Summary of significant accounting policies

Reporting entity

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparations of the accompanying financial statements.

Measurement focus, basis of accounting, and financial statement presentation.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The District applies expenses for restricted resources first when both restricted and unrestricted net assets are available.

The District reports the following major proprietary funds:

The Water District accounts for the activities of the District's water distribution operations.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Wellsville-Mendon Conservation District is a special service district created to service the distribution of water through a canal system originating from the Hyrum Dam and continuing on to Wellsville and Mendon. The District is governed by a board of three directors elected by the water shareholders. Each director serves for a three year term in a rotation of one director seat voted on each year. Wellsville-Mendon Conservation District is not a component unit of another organization.

Property and equipment additions are recorded at cost. Maintenance and minor repairs are expensed when incurred. Depreciation of all exhaustible fixed assets used by the enterprise fund is charged as an expense against its operations. Accumulated depreciation is reported on the enterprise fund balance sheet. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

System Improvements
Equipment

20 years
5 - 7 years

Retained earnings - Due to the absence of sufficient information and the lack of past financial statements the retained earnings January 1, 1985 balance was determined as an unreserved balance required to complete the balance sheet.

Account receivable balances are collected throughout the year and management does not feel that an allowance for bad debt is necessary.

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the proprietary fund. All annual appropriations lapse at fiscal year end.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash flow statement - For purposes of classification on the statement of cash flows, cash and cash equivalents have a maturity date of three months or less.

Bond issue costs - Bond issue costs are deferred and amortized over the life of the bond using the straight-line method. Issuance costs are reported as deferred charges.

Note 2: Cash and investments

Deposits and Investments

Deposits and investments for local government are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the local government's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the local government's deposits may not be recovered. The local government's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the local government to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2006, all of the local government's bank balances were insured.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The local government's policy for limiting the credit risk of investments is to comply with the Money Management Act.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Note 3: Water Shares

Wellsville-Mendon Conservation District owns 9,000 water shares in South Cache Water Users Association. Water shares may be currently traded or purchased for \$200 per share. Wellsville-Mendon Conservation District holds 64.29% of voting water shares in the South Cache Water User's Association. Water shares do not constitute a claim to or obligation for any asset or liability held by South Cache Water User's Association.

Note 4: Pension plan obligations

The Wellsville-Mendon Conservation District does not have any full-time employees and as such does not participate in a retirement plan.

Note 5: Bonds payable

The following is a summary of long-term debt transactions of the District's proprietary fund types for the year ended December 31, 2006.

Bonds payable at January 1, 2006	\$ 156,000
Less: Regular payment of principal	<u>(13,000)</u>
Bonds payable at December 31, 2005	<u>\$ 143,000</u>

Bonds payable at December 31, 2006, are comprised of the following issues:

\$192,000 water revenue bonds due to State of Utah Department of Natural Resources, Board of Water Resources in annual installments ranging from \$17,376 to \$22,704, which includes interest on the unpaid principal balance at an annual rate of 3.2%. Payments commenced on September 1, 2004 and continue each year until retirement on September 1, 2014.

\$ 143,000

The following is a summary of bond principal maturities and interest requirements:

<u>Year Ending</u> <u>December 31</u>	<u>Water Revenue</u> <u>Bonds</u> <u>Outstanding</u>
2007	\$ 17,576
2008	18,160
2009	21,712
2010	21,136
2011	21,560
2011-2014	<u>65,000</u>
Total	165,144
Less Interest	<u>(22,144)</u>
Outstanding Principal	<u>\$ 143,000</u>

Note 6: Memorandum totals

Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.